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A STUDY ON IMPLEMENTATION AND APPLICATIONS OF IFRS IN INDIA

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ABSTRACT

A set of rich value and quality accounting standards related to financial reporting are required worldwide in order to operate businesses successfully. Conversion to IFRS offers entities a number of important potential benefits. Notwithstanding its benefits, the transition to IFRS will be challenging. It is therefore imperative to assess the impact of IFRS and immediately embark upon taking the steps to towards convergence plan and positive and pro-active approach from all the stakeholders – the regulators, the ICAI, the profession and the industry. Therefore, an attempt to throw light on key challenges embedded with conversion to IFRS is made through this research paper. The paper also describes the ways and strategies to convert challenges of conversion to IFRS into opportunities for the Indian entities.

KEYWORDS: IFRS, Accounting Standards, IASC, Convergence, GAAP, ICAI.

INTRODUCTION:

Accounting Standards are certain guidelines that direct the manner of proper application of a particular accounting principle in the preparation and presentation of the accounts of an entity. Many such standards are available throughout the world. Each country is having its own set of accounting standards on one hand and International Accounting Standards [as given by the International Accounting Standards Committee (IASC)] on the other and accounts are being prepared and presented applying the standards that suits to the country economically, socially and in legal terms. This is because business is the part of a society and it reflects the social, cultural, economic and legal norms of the place it belongs to.

India has got its own set of national Accounting Standards [as given by the Accounting Standard Board (ASB)] that are different on many counts especially on the socio-economic, cultural and legal norms. Accounts and Financial Statements are being prepared in India by applying these standards. The present era of globalisation needs application of some common standards so that the accounts of each country are globally understandable and acceptable. It is worth mentioning here that, following of a set of common standards that are altogether different in practice will require some compromise between the prevailing standard norm and the new provisions. The standards given by the two authorities (IASB and ASB), although aim at better reporting practices, yet there are differences in the methodology and applicability of the standards. Hence convergence of the standards is sought for.

OBJECTIVES OF THE STUDY:

The present paper mainly attempts to focus on the steps adopted in India in the convergence of IFRS with Indian Accounting Standards and thereby to throw light on the convergence issue by highlighting the convergence attempts taken by the IASB and the Financial Accounting Standard Board, USA (FASB) on the international front.

CONVERGENCE OF IFRS AND INDIA:

In India, the process of convergence has made the take-off with the initiatives taken by the Institute of Chartered Accountants of India (ICAI) in the pronouncement of new accounting standards. At present there are in total 32 Indian Accounting Standards, and the last one, i.e. the 32nd relates to IFRS 7 the Financial Instruments: Disclosure. In regard to better reporting practice, the National Advisory Committee on Accounting Standards (NACAS) was formed in the year 2001 to render advisory service regarding accounting standards to the Government.

Adoption of IFRS will need a well-knit standards having international appearance with Indian flavour. The table below (Saxena, 2009) displays certain differences between IFRS and Indian Accounting Standards:-

SUBJECT	IFRS	INDIAN GAAP
Components of Financial Statements	Position, _ *Statement of Comprehensive Income _ Statement of Cash flow _ Notes to Accounts _ Statement of Changes in Equity (Note * - Also includes items of other comprehensive income such as revaluation gains, foreign exchange fluctuations, etc)	_ Profit and Loss A/c _ Cash flow statement and _ Notes to Accounts
Format of SOFP	No particular format prescribed. However IAS prescribes disclosure on the basis of current and non-current assets and liabilities.	According to the format prescribed in Schedule VI to the Companies Act 1956, Banking Regulation Act for Banks etc.
Format of Income Statement	IAS 1 prescribes the format of income statement.	According to the format prescribed in Schedule VI to the Companies Act 1956, Banking Regulation Act for Banks etc.
Statement of Cash Flows	Mandatory for all entities	Exempted for Level 3 entities as prescribed by ICAI.
Presentation of extraordinary items	IFRS prohibits the presentation of extraordinary items in the statement of comprehensive income or in the notes.	Indian GAAP requires extraordinary items to be presented in the profit and loss statement of the entity distinct from the ordinary income and expenses for the period. As a result, extraordinary items are considered to determine the profit / loss for the period.
Dividends proposed afterthe end of the reporting period	Dividends declared after the end of the reporting period but before the financial statements are authorised for issue are not recorded as liability in the financial	Dividends declared after the end of the reporting period but before the financial statements are approved are recorded as liability in the financial statements.
Depreciation rates	Allocated on a systematic basis to each accounting period during the useful life of the asset	Depreciation is based on the higher estimate of useful life of the asset, or the rates prescribed by Schedule VI of The Companies Act 1956.

Change in the depreciation Method	Treated as a change in the accounting estimate and hence is accounted for prospectively	Treated as a change in the accounting policy and is accounted for retrospectively (i.e. for all the relevant previous years). Any excess / deficit in the case of this kind of recalculation must be adjusted in the period in which the change is effected.
Entire class to be revalued	If an item of property, plant and equipment is revalued, the entire class of assets to which that asset belongs should be revalued.	An entire class of assets can be revalued, or selection of assets for revaluation can be made on a systematic basis.
Component accounting	Mandates component accounting	Recommends component accounting
Functional and foreign Currency	Functional currency is the currency of the primary economic environment in which the entity operates. Functional and presentation currencies may be different. The standard contains detailed guidance on this	No concept of functional currency.
Goodwill	Goodwill is not amortised under IAS 38 but is subject to annual impairment test under IAS 36.	AS 14 provides that goodwill arising on amalgamation in the nature of purchase is amortised over a period of 5 years.
Contingent asset disclosure	Contingent assets are disclosed in the financial statements only if the inflow of economic benefit is probable. (Para 37)	Contingent assets are disclosed as part of the director‟s report (approving authority) and are not disclosed in the financial statement.

EXPECTATIONS FROM CONVERGENCE:
Convergence is expected to ensure the following:

a) Same language of business

b) Cross border flow of investments leading to economic growth

c) Comparability of the financial statements on global parlance becoming possible

d) Globalisation of economy and world trade. Harmonisation along with convergence in accounting practice will ensure better world trade.

e) Advantageous to multinational companies as convergence will help bringing in a common accounting practice.

f) The work of the standard setters and the governments of the developing countries becoming easier.

g) The work of the tax authorities made easier by converging accounting practice for taxation.

h) Saving of time and money in planning and executing of accounting and auditing.

i) Costs involved in the access to the capital market are expected to reduce.

DISCLOSURES IN FINANCIAL STATEMENTS:
The Companies Act 1956 under Schedule VI prescribes a detailed form for disclosure and lays great emphasis on the quantitative aspect of information such as, sales, amount of transaction with related parties, production capacities, etc. On the other hand, the IFRS gives more stress upon the qualitative aspect of information such as, qualitative information of the stakeholders, terms of related party transactions, risk management policies, sensitivity analysis of the currency, etc. Further, IFRS requires segregation of all assets and liabilities into current and non-current, which is not appropriately reported by Indian companies.

RECENT UP-DATES ON APPLICABILITY OF IFRS IN INDIA:
The new Company Bill gives a renewed format for presenting Profit and Loss Account while the form of Balance Sheet is drawn under vertical method taking into considerations of the ruling under IFRS. The Direct Tax Code 2012 also attempts to simplify Indian Income Tax and Wealth Tax provisions. These attempts indicate a positive march towards convergence process, though in a slow pace.

It is being observed that some countries for instance, South Africa, Hong Kong, Australia, Montenegro, etc. (Wikipedia) could adopt IFRS so far. India, on the other hand, failed to adopt IFRS-converged standards till date although it announced of the adoption by 1st April, 2011. Some of the obvious reasons of non-adoption might be:

a) Non-recognition of Accounting Standards by the Indian Income Tax Law

b) Hurdles in shifting to Fair Value Accounting from the present Historical Cost Accounting system

c) Lack of proper guiding rules towards convergence

d) Lack of consensus among the Stakeholders, Directors, Accountants, Auditors, etc. relating to convergence matter

CONCLUSION AND SUGGESTIONS:
In the process of adoption of IFRS, difficulties have cropped up particularly relating to the differences lying in between the prevalent standards and the IFRS norms. The applicability of IFRS in India in particular needs be made keeping such difficulties in sight. The process of convergence has been making a slow but steady progress till now. It can be expected to have a common set of IFRS-converged standards within a short span of time.

As the convergence work is still going on, the practical application of IFRS-converged standards are yet to come up. As such, threat of problems in the post-application periods cannot be denied and moreover, the types of such problems cannot be forecasted for certain at this point of time.

Hence, preparation of IFRS-converged standards is a challenge before the preparers both in India and outside.

SUGGESTIONS:
Following points can be suggested at this point of time in regard to convergence:

1. Convergence should mean only compromise between the norms of the standards. It should in no way distort the cultural, socio-economic and legal identity of an entity. Hence, the preparers of IFRS-converged standards should be careful in this regard.

2. More number of trainers should be engaged to help the preparers.

3. The stakeholders must be properly educated in this line so that they can understand the IFRS-converged reports properly and can take their decisions.

4. Necessary modifications need be made in the laws governing business so that minimum hurdles are faced to apply IFRS-converged standards.

5. The idea of convergence of IFRS with other national standards and US GAAP should be publicised through Seminars, Workshops and Symposiums, etc. and later on the same may be put in the syllabi in the subject of Accountancy in the degree level courses of Universities in India in particular so that graduates become compatible to the new guidelines of accounting.

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